

Joint Economic Committee WEEKLY ECONOMIC DIGEST

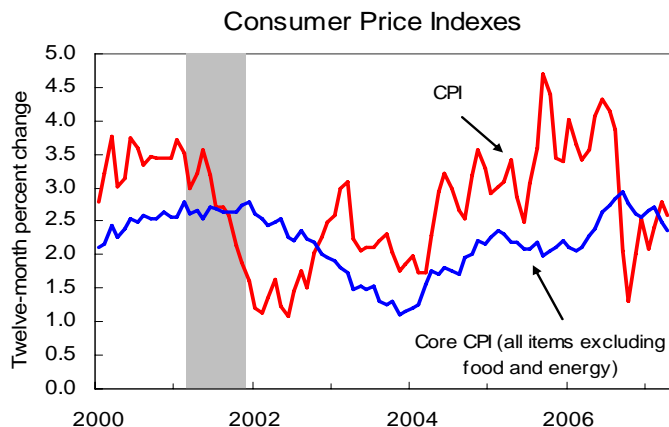
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair

May 21, 2007

ECONOMIC NEWS

Energy Prices, Homebuilding, and Manufacturing Remained Concerns in April

Rising energy prices continued to spur overall inflation in April. The consumer price index (CPI) increased by 0.4 percent last month, following a 0.6 percent rise in March. Energy prices rose by 2.4 percent in April, after increasing by 5.9 percent in March. The core CPI (which excludes the volatile prices of food and energy) rose by 0.2 percent. Over the past 12 months, the CPI has risen by 2.6 percent, and the core CPI by 2.4 percent (see chart).



Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.
Sources: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Industrial production rebounded last month, but the manufacturing sector remains relatively weak. Industrial production in manufacturing, mining, and utilities increased by 0.7 percent in April, following a 0.4 percent decline in March. Utility output, which has been volatile in recent months due to unusually sharp weather fluctuations, rose 3.5 percent in April. Manufacturing output grew by 0.5 percent in April, but that is only 2.0 percent above last year's level. That is well below the average 12-month pace of recent years.

New homebuilding grew in April, but builders remain pessimistic. New construction of privately owned housing increased by 2.5 percent last month to 1.528 million units at an annual rate. Despite that rise, new homebuilding remains weak: new construction is 16.1 percent below last year's level. Moreover, permits to build new homes dropped by 8.9 in April, reflecting continued pessimism among homebuilders. Permits have fallen by 28.1 percent over the past year.

IN FOCUS

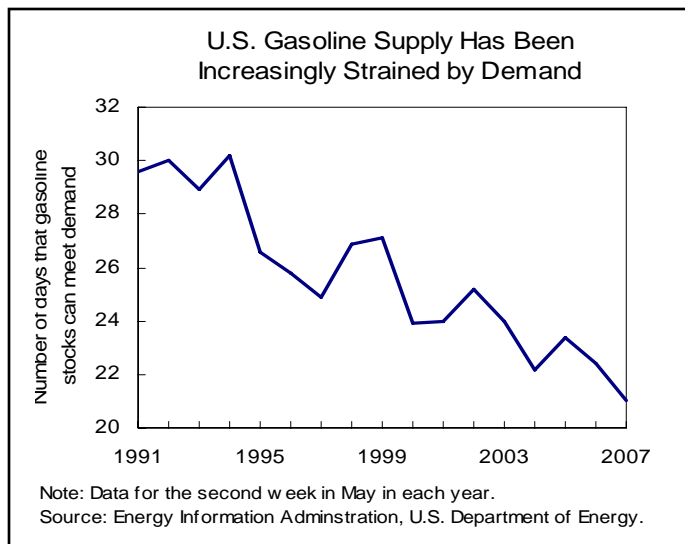
What's Behind the Recent Climb in Gas Prices?

Last week, retail prices of regular grade gasoline rose to a new record, averaging \$3.22 per gallon nationwide, the highest average price on record. Since the end of January, retail gasoline prices have risen by \$1.05 per gallon on average nationwide. Last week, consumers in a number of states paid even higher prices for gasoline: pump prices averaged \$3.44 per gallon in California, \$3.42 in Washington, \$3.32 in Minnesota, \$3.31 in Colorado and \$3.23 in Ohio. What accounts for the recent rise in gasoline prices?

According to the Department of Energy, the cost of crude petroleum accounts for about half of the retail price of regular grade gasoline. Measured over a number of years, changes in oil prices account for the lion's share of change in gasoline prices. But within the span of a year, gasoline prices are subject to influences that may not be reflected in changes in the price of oil. Indeed, so far this year, changes in oil prices have had little direct effect on the acceleration in retail gasoline prices. The retail price of regular grade gasoline increased by 23.0 percent over the last four months, while the price of West Texas Intermediate crude oil, for example, rose by only 3.1 percent.

Continued on reverse...

SNAPSHOT



Joint Economic Committee WEEKLY ECONOMIC DIGEST

THE WEEK AHEAD

DAY UPCOMING RELEASES

- WEDNESDAY 23** Joint Economic Committee Hearing: Is Market Concentration in the Petroleum Market Hurting Consumers? 216 Hart Senate Office Building at 10 AM
- THURSDAY 24** Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders (April 2007)
New Residential Sales (April 2007)
- FRIDAY 25** Sales of Existing Homes (April 2007)

**THURSDAY,
MAY 24th:**
*Did new orders for
capital goods pick up
last month?*

ECONOMIC STATS AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	May	Apr	Mar	2007 Q1	2006 Q4	2006 Q3	2006	2005
Real GDP Growth (%)	—	—	—	1.3	2.5	2.0	3.3	3.2
Unemployment (% of labor force)	4.5	4.4	4.5	4.5	4.5	4.7	4.6	5.1
Labor Productivity Growth (%)	—	—	—	1.7	2.1	-0.5	1.6	2.1
Labor Compensation Growth (%)	—	—	—	3.2	3.6	3.6	3.1	3.3
CPI-U Inflation (%)	4.9	7.4	4.9	3.8	-2.1	3.1	3.2	3.4
Core CPI-U Inflation (%)	2.4	1.2	2.4	2.3	1.9	3.0	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private non-agricultural establishments. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics.

IN FOCUS (Continued)

Analysts have attributed the recent run up in gasoline prices to an unusually early pickup in seasonal demands for motor fuel coupled with short supplies stemming from unexpected refinery outages, and lower-than-expected European stocks of gasoline available for import. As a result of the strong demand and tight supply, domestic gasoline stocks last week were capable of supporting only about 21 days of demand (see Snapshot). That's down by more than a day from the 22.4 days of supply available this time last year.

But increasingly tight spring gasoline supplies appear to have become the trend over the past two decades. At this time of year in 1991, for example, gasoline stocks amounted to 29.6 days of demand. While some analysts have suggested that technological advances have allowed refiners to meet demands using trimmer stocks over time. While that may be true to some extent, press reports in recent weeks of increased bottlenecking in gasoline refining and distribution suggest that low refining capacity better explains some of the trend decline in spring gas supplies. In past decades, growth in refining capacity has not kept pace with growth in fuel demands.

The Energy Department currently expects supplies to increase in coming weeks as the summer driving season proceeds. The Department predicts that gasoline prices will crest this month, before moderating some in the next couple of months. Even so, the Department expects that gasoline prices will average higher this summer season than last summer.